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RUEHAK/AMEMBASSY ANKARA 3879  
RUEHBJ/AMEMBASSY BEIJING 1696  
RUEHKO/AMEMBASSY TOKYO 1563  
RUEHIT/AMCONSUL ISTANBUL 2132  
RUEHVEN/USMISSION USOSCE 2583  
RUEAIIA/CIA WASHDC  
RHEFDIA/DIA WASHDC  
RHEHNSC/NSC WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUEKJCS/SECDEF WASHDC

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SENSITIVE

STATE FOR SCA/CEN, NEA/SCA/EX, HR, EUR/ACE, EEB  
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SUBJECT: TURKMENISTAN: EBRD DIRECTOR DETAILS MAJOR BREAKTHROUGH IN  
FINANCIAL SECTOR

REF: ASHGABAT 0699

11. (U) Sensitive but unclassified. Not for public Internet.

(SBU) SUMMARY: In a June 4 lunch with visiting European Bank for Reconstruction and Development (EBRD) Central Asia Director, Masaru Honma, and new EBRD Resident Representative, Neil McKain, told USAID that as a result of a recent breakthrough in its internal guidelines, it now can begin working with state banks through its small and medium enterprise financing facility, instead of only majority private banks as before. Deputy Prime Minister for Economy and Finance Hojamyrat Geldymuradov and Central Bank Chairman Guvanch Geklenov asked the EBRD to support a new "greenfield" private microfinance bank, which they wanted to see opened "yesterday." EBRD is also interested in reactivating its Trade Facilitation Program, which supports banks through providing credit guarantees. This would be critical for Turkmen banks involved in issuing Letters of Credit, since they are not known outside of Turkmenistan, but depends on local banks' ability to re-establish correspondent bank relations. In a meeting with Halk Bank Chairman Begmuradov, the chairman spoke very positively of the Certified Accounting Practitioner accounting training program supported by USAID. The chairman told Honma that Halk Bank was considering requiring its staff to obtain Certified Accounting Practitioner certification, which reflects the growing recognition of this program in the labor market. This is a major positive development in Turkmenistan's nascent economic and financial reform effort.

SUMMARY CONTINUED: Both the EBRD and World Bank are considering salary increases for local staff of approximately 40% to compensate for the recent radical devaluation of the U.S. dollar due to the exchange-rate unification that has hit embassies and international organization local employees like a ton of bricks. If we do not act to remedy this one-off situation, we will see a significant - and debilitating - exodus of highly experienced and trusted Locally Engaged Staff. END SUMMARY.

## BREAKTHROUGH OPENS DOOR TO WIDER POTENTIAL COOPERATION

13. (SBU) Visiting European Bank for Reconstruction and Development (EBRD) Central Asia Director Masaru Honman said in a June 4 working lunch that a recent breakthrough now allows it to work with state banks for SME financing facility. Previously EBRD could work only with majority private banks, which limited its ability to work with most banks in Turkmenistan because they are state-owned. A major potential obstacle to wider cooperation for EBRD remains the status of the Foreign Exchange Reserve Fund (FERF). If it is reformed to allow more transparency, EBRD might be able to expand its activities to include the oil & gas sector.

## STRONG INTEREST IN NEW PRIVATE MICROFINANCE BANK

14. (SBU) Deputy Chairman for Economy and Finance Hojamurat Geldymuradov and Central Bank Chairman Guvanch Geklenov asked Honma to support a new "greenfield" private microfinance bank. The World Bank's Operations Officer confirmed that an International Finance Corporation (IFC) delegation in Ashgabat last week also received a similar request. The government officials expressed to EBRD that they hoped to move very quickly on these plans -- in fact, they wanted it opened "yesterday."

15. (SBU) World Bank officer added that the IFC was told that the new microfinance bank is projected to have \$5 million in starting capital, and that 51% of the shares would be retained by members of the newly established Union of Entrepreneurs and Industrialists. The remaining 49% could be split between EBRD and IFC. EBRD was told that the new bank's director must be Turkmen. EBRD has an experienced specialist in mind that it would like to bring in to

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support this effort, if it participates.

## TRADE FACILITATION PROGRAM RECONSIDERED

16. (SBU) EBRD is possibly interested in reactivating its Trade Facilitation Program, which supports banks through providing credit guarantees. This would be critical for Turkmen banks involved in issuing Letters of Credit, since these banks are not known outside of Turkmenistan. This depends, however, on local banks' ability to re-establish correspondent bank relations.

## HALK BANK PROMOTES USAID'S PROFESSIONAL ACCOUNTING TRAINING

17. (SBU) McKain said that Halk Bank Chairman Begmuradov spoke very positively of the accounting training offered through USAID's A/CIPA program. He mentioned that Halk Bank was considering requiring its staff to obtain the Certified Accounting Practitioner certification offered through the Russian-language training and testing program started by USAID. (COMMENT: Since there are currently only approximately 130 Certified Accounting Practitioner-certified accountants in Turkmenistan, compared to over 4,000 in Kazakhstan, such a step would provide a big boost to the program. As it is, his comments are another sign of the growing market recognition and acceptance of this program. (reftel) END COMMENT.)

## EBRD AND WORLD BANK EXPECT BIG SALARY INCREASES FOR STAFF

18. (SBU) Participants discussed the impact of recent exchange rate fluctuations and the potential remedies under consideration for local staffs' salaries. McKain advised that EBRD/London recently rejected a proposed 25% increase for its Ashgabat staff because it was not high enough in light of the approximate 40% decrease in the U.S. dollar's value (and this might fall another 20%). Instead, McKain predicted that the approved level would be closer to 40%, and said it could be applied retroactively to April 2008. (NOTE: The Department has approved a 12% raise for LES that was planned to compensate for inflation before/before the exchange-rate assault on local salaries. END NOTE.)

19. (SBU) World Bank (WB) Operations Officer Serdar Jepbarov (please protect) reported that the WB has agreed to review salaries beginning July 1, the start of its new fiscal year. He indicated that the expected increase will be more than 40%, and that the WB is

considering a move to manat-denominated salaries.

¶10. (SBU) COMMENT: The opportunity for EBRD to work with state banks appears to open significant new avenues for cooperation in Turkmenistan. The decision to grant additional latitude - while stopping short of developing a new strategy -- follows recent visits by EBRD's president and a delegation of EBRD board members that heard a collective message promoting expanded engagement in Turkmenistan from assembled donors.

¶11. (SBU) COMMENT CONTINUED: In light of the limited access to credit as reported by private firms in Turkmenistan, the opportunity to open a privately-owned microfinance bank is a very positive development, and is fully consonant with President Berdimuhamedov's declared policy to support entrepreneurs in the private sector. Inviting institutions like the EBRD and IFC to take ownership stakes, even minority shares, makes this move even more progressive and offers hope that it will introduce and implement transparent lending and management practices.

¶12. (SBU) COMMENT CONTINUED: The large potential salary increases for local staff acknowledged by both EBRD and WB highlight the importance these institutions place on retaining key staff in a period of uncertainty following the recent devaluation of the U.S. dollar. Post recently received approval for a 12% increase for

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locally-employed staff that was calculated on inflation before the recent dramatic developments in the exchange-rate regime. However, that alone will not be enough to remain competitive against other international organizations in Ashgabat. We ask that the Department recognize the need to "take care of the troops" and work to bring LES salaries up to parity with other international organizations - before we begin to see a mass exodus of our valued and highly experienced LES. END COMMENT.

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